

# Talent Management Perspectives

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## Succession Planning Scrutiny Opens Opportunity for HR

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People in HR leadership have been talking for years about getting a coveted seat at the executive table — one that puts them in the middle of discussions on strategic direction. In many cases, the effort to get that seat has been to no avail.

But recently adopted regulatory oversight may have cracked open the C-suite door and pulled out a seat at the boardroom table for savvy talent managers with the necessary experience and insight. Succession planning is the key.

"Business has been talking the talk about succession planning for the past 10 years, but this new decade will be about the walking the walk," said Stephen Miles, vice chairman and head of leadership advisory services at Heidrick & Struggles. Miles is also the author of the forthcoming book *Your Career Game*.

Faltering returns, risk concerns and new regulatory developments have opened organizations' succession plans to increased scrutiny by investors. The Securities and Exchange Commission (SEC) released a bulletin in October 2009 that put corporate boards of directors directly in the cross hairs and provided support to shareholders asking for more insight into CEO succession plans.

SEC Legal Bulletin No. 14E (CF) stated: "One of the board's key functions is to provide for succession planning so that the company is not adversely affected due to a vacancy in leadership. Recent events have underscored the importance of this board function to the governance of the corporation. We now recognize that CEO succession planning raises a significant policy issue regarding the governance of the corporation that transcends the day-to-day business matter of managing the workforce."

The bulletin provided a new pathway for investors to rattle the cages of companies and examine what they're doing, Miles said.

"It's going to be this ongoing dialogue from shareholders, analysts and institutional investors about who is going to be the next CEO," he said. "If my money is in that company, that's where the risk lies. You can really screw it up if you put the wrong person in the role."

Previously, companies could limit access to succession information by saying hiring and promotion decisions were simply part of their usual business operation. The SEC guidance strengthens the hand of investors who want to see the adoption and disclosure of written CEO

succession plans, including detailed information, such as assessments, criteria for the role and a list of potential candidates.

This creates a challenge for the organization, but also an opportunity for HR. Most companies have talked a good game about succession planning, but when tested by the recession, their plans faltered.

"We've seen time and time again in the media where most of those Fortune [500] companies would have said confidently to any one of us who interviewed them 18 months ago that they do succession planning and maybe they're a benchmark," Miles said. "But if you actually look [to see if] they have an operational plan and [if they can] produce a viable candidate at the appropriate time, they didn't."

The opportunity for HR is to make that succession plan operational and produce viable leadership candidates when the organization needs them. With the SEC guidance, the board of directors will be taking a more active role in succession, and not just at the CEO level. Miles said succession planning will reach deeper into the organization to the next tier of leaders, what he calls C+1 and C+2 levels.

Traditionally, many CEOs ran the succession planning process, sometimes delegating it to HR, but often handpicking a successor. A new model calls for HR to own the process, with the CEO as an input and stakeholder and the board of directors playing a more active role, asking detailed questions about the organization's leadership talent.

"The scrutiny on their ability to run and execute a succession plan is going to go up 100-fold," Miles said. "This is going to be one of the markers of good corporate governance, and the SEC bulletin has paved a four-lane highway for this. You can no longer get away with this paper process."

This trend gives HR leaders a high-profile opportunity to be involved in critical decision making, requiring clear direction and point of view on next-generation talent and CEO succession and selection. Now is the time to take a seat at the table. After many years, the board might just be listening.

"It's going to lay on the shoulders of HR, and HR is going to have step up and take it to the next level if they're not there already," Miles said. 